



State of California:

Internal Control and State and Federal Compliance
Audit Report for the Fiscal Year Ended June 30, 2008

May 2009 Report 2008-002



CALIFORNIA STATE AUDITOR

U.S. DEPARTMENT OF VETERANS AFFAIRS

Reference Number:	2008-12-8
Federal Catalog Number:	64.114
Federal Program Title:	Veterans Housing—Guaranteed and Insured Loans
Federal Award Number and Year:	None; State Fiscal Year 2007–08
Category of Finding:	Reporting
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)

Criteria

TITLE 38—PENSIONS, BONUSES, AND VETERANS' RELIEF, PART 36—LOAN GUARANTY, Subpart B—Guaranty or Insurance Loans to Veterans, Section 4315—Notice of Default and Acceptability of Partial Payments

(a)(1) Reporting of Defaults

The holder of any guaranteed or insured loan shall give notice to the Secretary within 45 days after any debtor is in default by reason of nonpayment of any installment for a period of 60 days from the date of first uncured default.

TITLE 38—PENSIONS, BONUSES, AND VETERAN'S RELIEF, PART 36—LOAN GUARANTY, Subpart B—Guaranty or Insurance Loans to Veterans, Section 4317—Notice of Intention to Foreclose

Except on the express waiver of the U.S. Department of Veterans Affairs (department), a holder of a department-guaranteed home loan shall not begin proceedings in court or give notice of sale under power of sale, or otherwise take steps to terminate the debtor's rights in the security until the expiration of 30 days after the delivery by registered mail to the department of a notice of intention to take such action.

Condition

Veterans Affairs is approved by the department to offer department-guaranteed home loans to eligible veterans. During fiscal year 2007–08, Veterans Affairs held 51 department-guaranteed loans for which the homeowners became 60 days delinquent. However, for one homeowner, Veterans Affairs did not notify the department of the 60-day delinquency. Additionally, Veterans Affairs held 29 department-guaranteed loans for which the homeowners became 90 days delinquent, but it did not submit to the department a notice of intent to foreclose for one homeowner.

According to one of its managers, Veterans Affairs was unaware that the reporting requirements for the notice of default and notice of intent to foreclose were still applicable after the department required it to sign an indemnification agreement for this loan. The manager indicated that now that Veterans Affairs is aware of the continuing requirement it will continue to comply with this requirement for similar situations.

Questioned Costs

Not applicable.

Recommendations

Veterans Affairs should notify the department of each 60-day delinquency on department-guaranteed loans as required. Veterans Affairs should not foreclose on a department-guaranteed home loan until 30 days after it has notified the department of its intent to foreclose.

Department's View and Corrective Action Plan

Veterans Affairs stated that this finding relates to one loan file on which the department would not allow it to file a claim. Once it was notified that it could not file a claim for this loan, it did not continue to send the paperwork to report on and/or file a claim for this one rejected loan. Since the department rejected the loan and it could no longer file a claim for reimbursement with the department, it did not file the 60-day delinquency notice and the 30-day foreclosure notice. It was not aware that it had to continue to send the department forms that updated progress for a loan that could no longer be filed as a claim.

Veterans Affairs also stated that now that it is aware of this requirement, it has notified staff of its policy to file all progress notices on all VA loans, even in the event of a loan on which it cannot file a claim.